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I. Overview - The Economic Impacts Of Tourism

In recent years the real value of the tourism sector as both an economic and social contributor has emerged more clearly and is being more fully understood and appreciated by governments and economic planners.

The economic benefits of tourism are delivered through visitor expenditures on goods and services and the impacts are demonstrated in its contribution to;

- Gross national product (GNP).
- National balance of payments.
- Government revenues.
- Investment.
- Employment creation.
- Regional distribution of income.

The social benefits are directly linked and are important in their impacts on communities and regions where tourism may be the priority growth prospect as agriculture changes and declines or where for environmental, infrastructural or other reasons industry is not a viable option. One of the appreciated flexibilities of tourism is that it combines well with other sectors and can often provide them with new outlets and customers for their products, services and skills as well as other benefits;

- The diverse portfolio of tourism facilities that include heritage, cultural and leisure developments are also available to local populations.
- Tourism investment can provide broad opportunities for SME entrepreneurs.
- Tourism requires substantial part time workers that can suit females and others that are not enabled to take up full time positions.
- Tourism contributes to regional development and policies designed to support dispersed groups living on the land and in rural areas.

There are other real benefits that should be understood and that can be integrated into effective planning;

- Tourism as a major earner of foreign currency is a vital contributor to the balance of payments.
- Tourism is an intensive employer requiring a diversity of skills. It can create jobs at less cost and more quickly than other sectors. These jobs – unlike others - cannot be replaced by investment but rather continue to grow as investment increases.
- Tourism provides support for an expanded access transport network that is also vital for business success.
- Tourism provides or supports the vibrancy of many leisure and recreational services that are vital to attracting FDI managers from developed economies.

- Tourism contributes positively to the image of the country and generally maintains a network for the distribution of positive and enhancing news.
- Taxes paid by tourists as external residents reduce the need to levy these internally to maintain current levels of public expenditure.

Lack of understanding of how tourism works in the economy has often contributed to it being undervalued in terms of its effect and the distribution of its benefits. It is not sufficient to measure only the initial direct expenditure. If for example a visitor pays a hotel bill, the hotel will then use this income to pay for goods and services as well as paying its staff who in turn will circulate the money further and of course the government will take a share in direct and indirect taxes at many different stages. These percolations of the initial direct expenditure by the visitor through the economy creates indirect and induced effects as it passes through the layers. An additional understanding is needed, as some transactions will result in leakages where expenditures are made for imported goods and for other technical economic reasons. There is also a significant difference between the effects of expenditures by domestic tourists recirculating money already in the economy and that by visitors from outside the state –“ export tourism” that represent inflows of money into the economy.

In order to develop realistic estimates of the impact of tourism spending it is necessary to employ a methodology that will take into account the extent to which tourism expenditure is distributed between the various sectors of the economy and the ramifications of that expenditure as it works its way through the various stages taking into account direct, indirect and induced effects as well as any government recycling of income received through taxation.

Economists use input – output analysis as a technique to track and understand the effects of tourism. This form of analysis looks at an economy in terms of the relationship between all of the inputs and outputs. The outputs are measures of the production of goods and services and can be represented by equations in which output is equal to the final demand for it, plus the sum of its other uses as inputs in production activity throughout the economy. It is possible using this method to trace the effects of a change in final demand such as takes place through the expenditure of tourists throughout its inter-industry linked relationships, so that the knock-on effects on other industries may be measured.

To a tourism business there isn’t necessarily any distinction between payment for goods and services whether the payee is a domestic or an international visitor but from an economic point of view there is. Payments from domestic visitors are generally less valuable in economic terms as they represent a movement of expenditure from one sector of the economy to another while expenditure by international visitors represents an additional stream of expenditure into the economy. Domestic tourism is important not just for the base it provides for the development of international (export) tourism but also because where expenditure on holidays and visits takes place internally rather than abroad there is a saving of foreign exchange and local expenditures into tourism heightens the multiplier effect as tourism is generally a sector with a low import content.

The collection of financial data on tourism is generally collated to cover four areas;

- Expenditure receipts from international visitors (Export Tourism)
- Expenditures with carriers for transport services (Carrier Receipts)
- Expenditures by domestic visitors.
- Day trip expenditures where visitors do not remain overnight.

These cumulative expenditures form part of " private final consumption" and with an adjustment for the imports necessary to service the consumption, can provide a measure of the direct impact on GNP. To calculate the impact a multiplier is derived by applying the input/output analysis techniques. Taking the multiplier through all its stages can result in four multiplier figures which represent;

- Direct expenditures.
- Direct and indirect expenditures combined.
- Direct, indirect and induced expenditures combined.
- Government recycling.

The amount of tourism expenditure multiplied by the multiplier will give the total impact to GNP at each stage. The figure generally used is that calculated at the third stage (direct, indirect & induced) with an allowance for Government recycling rather than the full effect of the fourth stage.

Example;

Country A's revenues from tourism are as follows;

- International tourism 1,000 million $
- Carrier receipts 300 million $
- Domestic tourism 400 million $

Using input -output analysis the GNP multipliers have been calculated as follows;

	Direct	Direct & Indirect	Direct, Indirect & Induced	Gov't Recycling
International Tourism	0.575	0.791	1.032	1.412
Carrier Receipts	0.350	0.542	0.710	0.987
Domestic Tourism	0.512	0.795	N/R	N/R

As stated earlier, if the calculation is taken at the third stage it will be understated as Government usually re-spends quickly the income it receives thus creating further economic activity, on the other hand if all of this recycling is attributed to tourism then it may be overstated as there are other factors that apply.

A proportion therefore of the Government recycling impact is allowed and for the purpose of the example we have allowed a third (33.3%).

The total contribution of the tourism economy to GNP can therefore be calculated as;

International tourism	1,000 X 1.158	=	1,158	million $
Carrier Receipts	300 X 0 .802	=	240.6	million $
Domestic tourism	400 X 0.795	=	318	million $

The total contribution therefore can be calculated as 1,716.6 million $ and this can be expressed as a % of GNP.

Tourism is also an export sector. The International tourism and carrier receipts can be combined to demonstrate that in the example given tourism has contributed 1,300 million $ to the export total. This can be adjusted by the necessary imports required to service tourism to produce the net contribution of tourism to exports.

II. Tourism – The Impact on Employment

The nature of tourism makes it difficult to measure the employment benefit. Clearly those who work in front line services such as hotels can easily be identified but tourists spend money on many goods and services spread over many sectors. The key driver of employment is clearly visitor expenditure – the greater the expenditure level the greater the employment. A second difficulty is that not all jobs created by tourism are full time – a feature of tourism is the number of part time and casual jobs that it creates at peak and busy periods. Tourism also involves considerable activity by the construction sector particularly when it is in growth phase and this must be factored in. The most satisfactory measurement used is "Job Equivalent" which measures all employment as " full time job equivalents". What is needed is a method of calculating employment that is directly related to visitor expenditure.

Prof. E. Henry and B. Deane researched this problem on behalf of Irish tourism using input – output analysis which they demonstrated in their technical paper on the subject. (ref. Vol. 18, No 8, 1997 of Tourism Management)
The results of this research produced and provided the back up calculations to demonstrate how employment numbers could be derived directly from each 1 million JD of visitor expenditures as follows;

	Direct	Direct & Indirect	Direct, Indirect & Induced	Gov't Recycling
Int. Tourism	27.55	40.08	49.71	68.20
Carrier Receipts	15.77	24.19	29.73	44.10

Domestic Tourism	23.13	36.89	N/R	N/R

If as before we attribute a third of the added benefit of Government recycling the full employment impact of tourism would be calculated as;

- 55.84 full time job equivalents per I million JD of visitor expenditure.
- 34.52 full time job equivalents per 1 million JD of carrier receipts.
- 36.89 full time job equivalents per 1 million JD of domestic visitor expenditure.

These numbers of people are not employed in tourism but they are employed *BECAUSE* of tourism and the success of tourism can maintain and grow these employment numbers. This is vitally important, as unemployment is a major concern for Government and national policy. Tourism is not just an intensive employer it also has other advantages in that it is usually one of the least expensive options relative to the cost of public investment dedicated to job creation, one of the fastest in terms of lead time and one of the best at distributing employment regionally and combining with traditional rural employment in agriculture and craft skill areas.

III. Tourism – Impact on Government Revenue

From the time of first arrival and even before, visitors are engaged in expenditures that go to Government revenues and benefit. These may take many forms from charges for visas, landing charges, entry fees, excise duties, indirect sales taxes, direct taxes, entry fees, etc etc. In addition workers employed in tourism will pay tax on their income, as will their employer companies on their profits. The multiplier also comes into effect, as the Government will continue to receive benefit at every level as the expenditure by visitors percolates through the layers of the economy.

The impact on Government revenue will depend on the nature and extent of taxation policy and its integration but the Government take can reach 25-35% of visitor expenditure at the direct stage and can be close to 50% at the third stage (direct, indirect & induced) and over 50% when the Government's own recycling is factored in.

Government is the big winner from tourism and this alone provides compelling reasons for investment that will further enhance these returns.

IV. Tourism – Impact on the Regional Distribution of Income

Expenditure by visitors takes place in many areas as visitors travel about to engage with and use the tourism products of a country. This is important as it can relate directly to the Governments regional policy and to other policies designed to create employment and enterprise on a distributed basis. While the effects of tourism are

often more clearly visible and physically demonstrable in smaller centres it is frequently difficult to obtain reliable statistical information to calculate regional impacts more precisely. The resulting calculations are usually more crudely formed using a combination of bed night statistics and the result of visitor exit surveys that track visitor journeys. As Jordan intends to focus part of its growth strategy on free independent travellers (FIT) who are mobile and flexible, it will be important to track internal distribution and to plan for its optimum beneficial effects on the community.

V. Tourism – Impact on Investment

The development of the tourism economy involves the commitment of considerable investment by both the public and private sectors. This investment takes many forms;

- Investment in tourism facilities including areas like, access, airports and hotels.
- The development of tourism products including areas like heritage, health and well-being, MICE etc.
- The provision of infrastructure to support tourism. This would include both hard and soft infrastructures.
- Continual upgrading and renewal of existing facilities, products, amenities and infrastructures as well as quality development to meet increasing customer needs.
- Investment in organisation, support, marketing and education/training

VI. Tourism – The Rationale for Public Sector Investment & Support

Tourism growth is a private sector activity but the private sector can only succeed in the context of consistent and extensive public sector leadership, support and investment. In the past Government has not always been clear as to the return to the community or the economy from investments made and this can complicate the rationale behind investment choices and priorities. In many Government considerations there has in the past being a preference for manufacturing rather than service sector options that has militated against tourism.

The effectiveness of Government is determined primarily by its ability to allocate and support priorities within an integrated strategic framework of National interests. It is also necessary to give political leadership, so as to engage the commitment of partners and society behind these priorities.

In "developing tourism for economic and social success" it is recommended that all public and private sector investment in tourism should be based on the strength of the business plan and how it proposes to achieve the returns required to justify the investment. The plan should be very specific in setting out these returns as targets or objectives that are clear, measurable and agreed.

The objective for the private sector will be profitable operation, those for the public sector can be more wide ranging and can include all of the benefit areas set out in this document and particularly visitor expenditure, revenue, employment, regional development, SME opportunity etc.

The public sector is partly responsible for the quantum of investment that is required but it is wholly responsible for the context in which the total required investment can be leveraged and achieved.

A problem for Government is that it must make choices between infrastructure investment priorities such as a bridge or a convention centre. An important consideration for tourism investment is that it is a direct income-generating sector; it is therefore a potential priority consideration as it helps Government with the fundamental requirement that as the state constantly expends funds it must invest in those sectors that can earn revenue otherwise it cannot fulfil its needs on the expenditure side.

A successful tourism economy produces significant revenues for Government, which if they did not exist would require Government to source these through additional taxation just to maintain the level of expenditure. A community that welcomes and facilitates tourism is therefore rewarded by having some of the costs of public services paid for by external revenue from visitors as well as having the benefit of many facilities and amenities contributing to the quality of their lifestyle.

A future approach for Government not just in tourism but also in other areas is to develop and deepen the concept of public/private partnerships where the targets and objectives of all the partners and stakeholders can be agreed as legitimate returns on a programme of planned investment. The very nature of these partnerships is that through successful achievement of the targets they justify the strength of their business and investment plan and are consequently sustained by it.